EDWARD J. MARKEY
7TH DISTRICT, MASSACHUSETTS
www.house.gov/markey

ENERGY AND COMMERCE COMMITTEE
RANKING MEMBER
SUBCOMMITTEE ON
TELECOMMUNICATIONS AND
THE INTERNET
RESOURCES COMMITTEE

Congress of the United States
House of Representatives
Washington, DC 20515–2107

2108 RAYBURN BUILDING
WASHINGTON, DC 20515–2107
(202) 225–2836

DISTRICT OFFICES:
5 HIGH STREET, SUITE 101
MEDFORD, MA 02155
(781) 396–2900

188 CONCORD STREET, SUITE 102
FRAMINGHAM, MA 01702
(508) 875–2900

July 9, 2002

The Honorable Harvey Pitt
Chairman
Securities and Exchange Commission
450 5th Street, N.W.
Washington, D.C.

Dear Mr. Chairman:

I am writing to request action by the Commission to ensure that oil and gas companies provide full and complete disclosures regarding their potential liabilities for dismantlement, removal and restoration (DR&R) costs on public lands used by them for oil production.

At my request, the General Accounting Office (GAO) recently prepared a report entitled Alaska's North Slope: Requirements for Restoring Lands After Oil Production Ceases. This report found that oil company liability for removing existing oil and gas infrastructure and restoring the tundra on the North Slope of Alaska may run as high as $6 billion, but existing bonds will cover only a fraction of that cleanup.

There are at least two important public policy issues raised by the GAO report. First, the GAO report makes clear that oil companies are refusing to publicly disclose the soaring cost of their existing liability on the North Slope, a troubling accounting issue that needs to be addressed before it is sprung on unsuspecting investors, workers and the public. Second, the GAO report is an indictment of the existing federal and state permitting process, which allows private oil and gas development on public lands using permits that are so vague and the financial assurances so inadequate that the public interest in restoring these lands may never be redeemed.

I am writing to you today regarding the accounting issue and the companies' refusals to make public their apparently enormous liabilities on the North Slope. As you know, recent experiences with Enron, Global Crossing, WorldCom, and Xerox have provided ample evidence of the costs of failing to be vigilant when accounting gimmicks are used to hide a company's true financial condition.

The GAO reports that:

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> None of the five oil companies with substantial ownership interests in current oil production on the North Slope were willing to provide their estimated DR&R liability for these operations. Spokesmen from these companies stated that their estimates have been calculated for accounting purposes only and were not intended for public review.

At the same time, the GAO reports that while the oil companies freely acknowledge that existing bonding requirements are inadequate to meet the DR&R needs, they do not believe that increasing such bonding requirements is necessary because the companies are well-capitalized, have adequate assets to cover DR&R costs and have already accounted for this obligation in their financial statements. However, in the current financial environment, keeping investors in the dark about specific liabilities while asserting overall assets will always be sufficient to cover such liabilities is simply unacceptable. Investors and the public have every right to know site-specific information about DR&R costs, so that they can judge the adequacy of a company's assets in meeting these liabilities.

Accordingly I am urging that the SEC demand a true accounting to the size and scope of the DR&R cleanup liability by each of the oil companies whose securities are registered with the Commission. Such an accounting should allow investors to obtain regional or field-wide estimates of DR&R liabilities. This will allow investors and the public to better judge the nature and extent of potential DR&R liabilities and the ability of a company to cover such liabilities. Since DR&R liabilities may change over time based on regulatory changes, technological changes, and increases in drilling and production-related activities, investors need to receive updated, site-specific information regarding such liabilities in evaluating the impact of such costs on oil company revenues. Receiving such information also might assist both investors and the SEC in evaluating whether any funds earmarked for DR&R liabilities were being used for other purposes, including such prohibited purposes as revenue management and manipulation.

I request that the Commission take immediate action, either directly pursuant to the authorities conferred to it under the federal securities laws, or through the Financial Accounting Standards Board (FASB), to require all publicly-traded oil companies to separately report to investors their estimated DR&R liability for each operation, such as those on the North Slope of Alaska.

I thank you for your consideration in this matter.

Sincerely,

Ed Markey

Edward J. Markey
Member of Congress